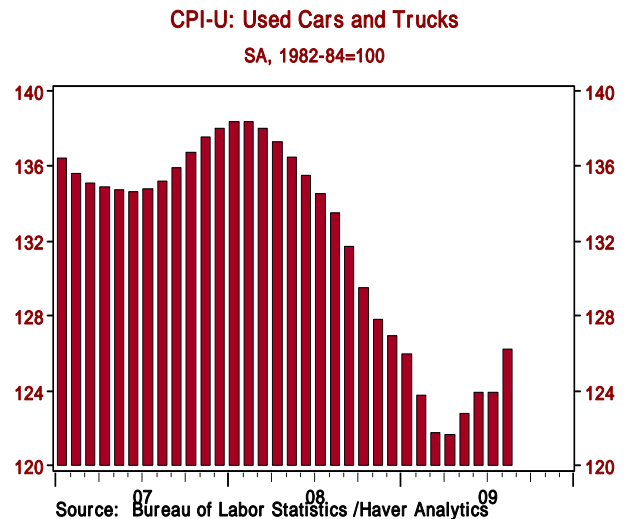
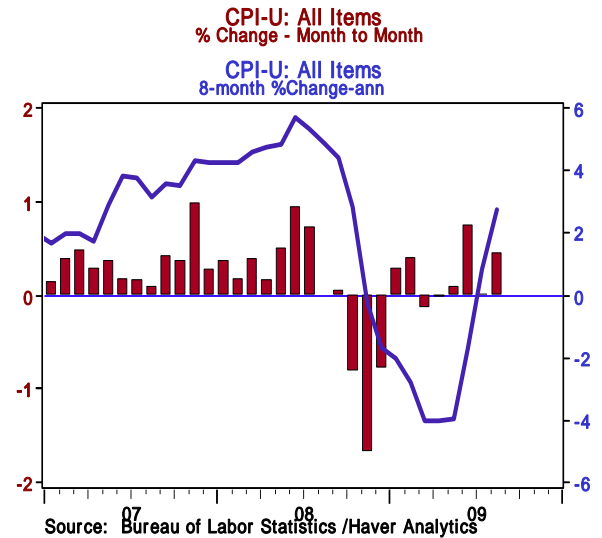


# AUGUST CPI

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- The Consumer Price Index (CPI) was up 0.4% in August, slightly higher than the consensus expected. The CPI is down 1.5% versus a year ago but is up at a 4.9% annual rate in the past three months.
- Most of the increase in the CPI in August was due to energy prices, which rose 4.6%. Food prices increased 0.1%.
- Excluding food and energy, the “core” CPI was up 0.1% in August and is up at a 1.4% annual rate in the past three months. The largest contribution to the core CPI in July came from used cars and trucks.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.2% in August but are up 4.5% versus a year ago.

**Implications:** After taking a month off in July, consumer prices were up 0.4% in August (0.447% unrounded). The gain in prices was primarily due to energy. In particular, gas prices increased 9.1%. Consumer prices are down 1.5% versus last year but this number is misleading. Commodity prices dropped rapidly late last year as the economy fell off a cliff and into a panic. So far this year, consumer prices are up at a 2.7% annual rate. In the past three months prices are up at a 4.9% rate. “Out-of-pocket” inflation has been even higher than these figures suggest. About 24% of the CPI consists of “owners’ equivalent rent,” which is the government’s estimate of what homeowners would get for their homes if they rented them out. This estimate of rent has been very subdued lately. But remember, no homeowner actually pays this money to anyone. Excluding imputed rent, the CPI is up at a 3.1% annual rate so far this year and a 6.4% rate in the past three months. Month-to-month data can be volatile, so not every month will show accelerating inflation, but with the Federal Reserve still implementing the loosest monetary policy in peacetime US history, we believe the underlying trend will remain upward. In the past year, real (inflation-adjusted) average hourly earnings are up 4.5%. If inflation is not arrested soon, it will increasingly rob workers of their wage gains, converting nominal wage increases into flat or negative movements in real wages.



CPI - U <i>All Data Seasonally Adjusted</i>	Aug-09	Jul-09	Jun-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	0.4%	0.0%	0.7%	4.9%	2.3%	-1.5%
<i>Ex Food &amp; Energy</i>	0.1%	0.1%	0.2%	1.4%	1.9%	1.4%
<i>Ex Energy</i>	0.1%	0.0%	0.2%	1.1%	1.4%	1.3%
<b>Energy</b>	4.6%	-0.4%	7.4%	57.1%	12.9%	-23.0%
<b>Food and Beverages</b>	0.1%	-0.2%	0.1%	-0.2%	-1.1%	0.6%
<b>Housing</b>	0.1%	-0.2%	0.0%	-0.6%	-0.8%	-0.6%
<i>Owners Equivalent Rent</i>	0.1%	0.0%	0.1%	0.4%	1.2%	1.7%
<b>New Vehicles</b>	-1.3%	0.5%	0.7%	-0.7%	2.8%	0.5%
<b>Medical Care</b>	0.3%	0.2%	0.2%	2.7%	3.1%	3.3%
<b>Services (Excluding Energy Services)</b>	0.2%	0.0%	0.1%	1.6%	1.6%	1.6%
<b>Real Average Hourly Earnings</b>	-0.2%	0.2%	-0.9%	-3.6%	-0.9%	4.5%

Source: U.S. Department of Labor

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